

A nonprofit association composed of licensed insurance companies that make insurance available to persons who are in high-risk categories and cannot otherwise obtain coverage qualifies for exemption under section 501(c)(6) of the Code.

The Internal Revenue Service has been asked whether the organization described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization is a nonprofit association composed of insurance companies that write a specified type of insurance and are licensed in a particular State. It was formed pursuant to State and Federal programs that are designed to make insurance available to persons who are in high-risk categories and cannot otherwise obtain coverage. All insurance companies writing the specified type of insurance within the State are required by the State Insurance Commission to be members.

The purpose of the organization is to provide for the equitable distribution of high-risk policies among all members. It has been represented that the industry has been criticized because member companies have been cancelling high-risk policies.

Any person who has had his insurance cancelled or who has been unable to obtain insurance through regular channels may make application to the organization. If the risk meets the organization's standards, the application is accepted by the organization and referred to a member company for handling. Where the organization declines an application, it must notify the appropriate State insurance official stating its reason for declining.

The organization's income is from assessments against the members based on premiums written. Disbursements are for normal operating expenses.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest. The activities of the association must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

The organization's activities promote the common business interests of the members since the spreading of high risk policies among its members provides insurance to persons who would normally be unable to obtain insurance and minimizes public criticism of

the industry. Thus, its activities are directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for its individual members. Accordingly, it is held that the organization is exempt from Federal income tax under section 501(c)(6) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(6) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.